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SUBJECT: SAUDI ARABIA'S 2009 BUDGET PERFORMANCE AND 2010 FORECAST

¶1. (U) Summary: The SAG announced its largest budget ever on December 21. It projects spending for 2010 will be \$144 billion, up 14 percent from 2009; and estimates revenues will be \$125.3 billion compared to 2009's actual revenues of \$135 billion, projecting a deficit of \$18.6 billion. As with the 2009 budget, capital expenditure is a key component of the SAG's 2010 budget. Education and manpower development allocations account for 25.5 percent of the budget; health and social affairs for 11 percent; and water, agriculture, and infrastructure for 8.5 percent. Saudi Arabia's 2009 budget recorded a deficit of \$12 billion, approximately 3.3 percent of GDP, as a result of lower oil revenues and higher than budgeted expenditures. Actual expenditures exceeded the budget by 15.7 percent, but revenue was 23 percent greater than anticipated, resulting in a smaller deficit than had been forecast at the beginning of the year. End summary.

2009 Budget Performance

¶2. (U) On December 21, the Saudi Council of Ministers announced the government's 2009 financial results and endorsed the SAG's 2010 budget. The SAG ended 2009 \$12 billion in the red, roughly \$5 billion better than anticipated. The better-than-expected result was almost exclusively a result of higher than forecast oil prices during the second half of 2009. It was also in spite of actual spending exceeding the budgeted \$127 billion by \$20 billion. Revenues for 2009 were \$135 billion, up 23 percent from an expected \$109.3 billion. Oil revenue accounted for 86 percent of this total. According to media reports, the additional \$20 billion in spending went to the development of mosques and religious sites, military and security projects, wage increases for government employees and teachers, scholarships, social security, and subsidies for essential commodities such as barley, rice, cattle feed, formula milk, and rice.

¶3. (U) The SAG's budget deficit was the first since 2003. It funded the deficit by selling international assets rather than issuing new debt. SAG debt remains at just over 13 percent of GDP and is all held domestically. Relative to 2008, actual government revenues fell by more than 50 percent due to the sharp correction in oil prices and OPEC-mandated oil production cuts.

¶4. (U) The Saudi current account surplus fell to \$20.5 billion, 5.5 percent of GDP, compared to \$134 billion last year. Economists attribute this decline to lower oil export revenues. The total cost of imports fell by 21 percent as a result of lower global commodity prices.

2010 Budget Forecast

¶5. (U) The SAG projects spending \$144 billion in fiscal year 2010, up 14 percent from 2009; and estimates revenue will be \$125.3 billion compared to 2009's \$135 billion. Local economists believe

these projections for both revenue and expenditures to be conservative as with oil prices hovering near \$80 / barrel it is unlikely revenue will be less than in 2009. The SAG also typically has cost overruns of 15 to 20 percent. Although the budget does not explicitly state what oil price it's based on, economists estimate the SAG used an average price of \$43 - \$45 / barrel and an average production level of 8.3 million barrels per day. These same economists actually expect oil to trade between \$65 - 75 as optimism regarding the pace of the global recovery rises.

16. (U) The following is a breakdown of the budget's allocations:

-- Education and manpower development is projected to rise to \$36.6 billion (25.5 percent of the total budget), up \$4.2 billion from the amount budgeted in 2009. New projects include 1,200 schools and the construction of four new campuses for newly-established universities. Renovations to 2,000 schools and continued construction of 3,112 schools currently underway. A renewed commitment to the SAG's overseas scholarship program, with a new focus on technical training;

-- Health and social affairs expenditures are projected to be \$16.3 billion (11 percent of the total budget), up \$2.4 billion compared to the 2009 allocation. New projects include primary healthcare centers, 92 new hospitals, social welfare offices and poverty reduction programs;

-- Water, agriculture, and infrastructure expenditures have been allocated \$12.2 billion, (8.5 percent of the total budget), up \$2.8 billion from 2009. New projects include water desalination plants and developments in the industrial cities of Jubail and Yanbu. There are appropriations to enhance water resources, build dams, dig wells, and improve water and sewage networks;

-- Transportation and telecommunications expenditures are projected to be \$6.3 billion (4.4 percent of the total budget), up \$1.25 billion from 2009's allocation. Projects include 6,400 km of road to be added to the 35,000 km of roads currently under construction, as well as ports, airports, railroad developments, and new postal service;

-- Municipal services are projected to be \$5.7 billion, (4 percent of the total budget), up \$500 million from 2009's allocation. Projects include city roads, traffic lights, bridges, as well as sanitary and environment-related projects.

An Expansionary Budget

17. (U) The SAG's 2010 expansionary budget is the largest in Saudi Arabia's history and represents an increase of 14 percent over 2009's budget. Saudi Finance Minister Dr. Ibrahim Al-Assaf told press that in spite of the current uncertainty in global markets, the King's government has opted to increase allocations for various projects to maintain the momentum of long-term economic development and mitigate the impact of the global financial crisis on the Saudi economy. Local economists are confident that the projected deficit will not have an adverse effect on the investment climate as Saudi Arabia has more than sufficient reserves from previous surpluses to make up for this deficit.

SMITH